

AperTO - Archivio Istituzionale Open Access dell'Università di Torino

**“PUBLIC LOCAL GROUP: THE INFLUENCE OF STAKEHOLDERS IN
CONSOLIDATED ACCOUNTING PROCESS. EMPIRICAL EVIDENCE IN ITALY”.**

This is the author's manuscript

Original Citation:

Availability:

This version is available <http://hdl.handle.net/2318/155491> since

Terms of use:

Open Access

Anyone can freely access the full text of works made available as "Open Access". Works made available under a Creative Commons license can be used according to the terms and conditions of said license. Use of all other works requires consent of the right holder (author or publisher) if not exempted from copyright protection by the applicable law.

(Article begins on next page)

**PUBLIC LOCAL GROUP: THE INFLUENCE OF
STAKEHOLDERS IN CONSOLIDATED ACCOUNTING
PROCESS. EMPIRICAL EVIDENCE IN ITALY**

PAOLO PIETRO BIANCONE

Professor of Management and accounting
Department of Management – University of Turin

SILVANA SECINARO

Assistant Professor of Management and accounting
Department of Management – University of Turin

ALESSANDRA INDELICATO

Research fellow of Management and accounting
Department of Management – University of Turin

ABSTRACT

The Consolidated financial reports stakeholders are: external, the community, other government agencies, lenders, suppliers, third parties, internal, management, the political and administrative employees. The consolidated information must satisfy two kinds of information needs, internal and external, making it possible, among other things, the knowledge of the size of the Group, the characteristics of the activity, the results achieved, the overall reliability of the public company and its subsidiaries (Grossi, Steccolini, 2008). In particular, the consolidated financial statements for the local public group - recently introduced in the experimental stage by the Italian legislature - has the potential to provide the information needed to verify the degree of achievement of the objectives inherent in the entire aggregate, especially with reference to the composition the sources of the resources that the composition of the loans of the same. In this context allows to know the group's financial structure, the degree of financial independence and the level of debt, the structure of ownership of the group, the overall cost of the same, the structural composition of costs, especially those that are the most significant items of part of the output. The consolidated information permits, also, the knowledge of the different composition of income as well as the analysis of the relationship between revenue from taxing ability of the parent and the income from exchange relationships activated by the subsidiaries with consequential possibility of forecast consolidated business units as well as to formulate programs for greater optimization is finding that

the use of resources. Of course, here and take over the limits, in his overview (overall) the consolidated financial statements can conceal the meaning of particular events and makes it difficult to compare spatial / temporal data consolidated as the Group is, by its nature, ductile (not is a stable) and flexible is the scope of consolidation (directly dependent on the composition of the Group) (Grossi, Reichard, 2006). This paper aims to discuss the purpose of the consolidated financial statements of the Public groups to steer the preparation of the interests of stakeholders.

AIM OF RESEARCH

The research aims is to examine the process of consolidation of local government, through the application of different local accounting standards and international accounting standards in force IAS-IFRS / IPSAS, assessing which are more in line with the needs of stakeholders. The final goal is to identify the differences of representation, starting from the identification of the consolidation area.

Method

This research uses a double approach:

- 1) quantitative approach from the analysis of the financial statements of the public organization and its subsidiaries,
- 2) quality approach in reference to the analysis of the implications of the preparation of consolidated financial statements on management control and programming of the local public group.

Design of research

The method used is as follows:

- the evaluation doctrinal essence of local public groups;
- the analysis of international accounting standards on consolidated financial statements for the local public group (IPSAS 6, 7, 8), supplemented with IFRS10, which regulates the consolidated financial statements for private groups;
- The analysis of national accounting standards on the consolidated financial statements of the group local public;
- the comparison between local gaap and international standards accounting for public sector (IPSAS 6, 7, 8);
- the effects of application of the different national and international standards (IPSAS 6, 7, 8, IFRS10), specifically on the determination of the consolidation, applied to the sample analyzed;
- the evaluation of the results in the field of information on the needs of the various stakeholders.

In particular, the study of the effects of application of the local gaap or international standards (IPSAS 6, 7, 8, IFRS10), specifically on the determination of the consolidation, was analyzed by means of a questionnaire sent to the office to find affiliates the following information:

- a) Draws up the consolidated financial statements? If not, discarded
- b) If yes, additional information was requested:
 - List Join with percentage of ownership;
 - List of Non-profit organizations in which the Municipality pays contributions;
 - Principles of consolidation applied;

- Scope of consolidation to the consolidated financial statements approved;
- Consolidation methods applied;
- Assets consolidated over the past three years;
- Debt consolidation over the past three years;
- Turnover / income statements for the past three years.

Data

The analysis started from the study of the state of the art in relation to the consolidated financial statements of the 118 Italian municipalities, the provincial capital of Italy.

The websites were analyzed and, where they deficient, the accounting offices were contacted to retrieve the following information:

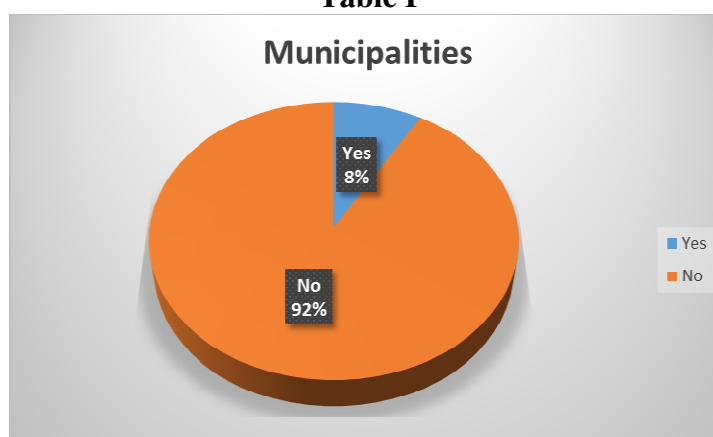
- The municipality prepares consolidated financial statements? If yes, data relating to the consolidation.

Following the analysis of the reference sample, we obtained that less than 10 % of the Municipalities of draws reference at the time the consolidated financial statements.

Have been taken, therefore, in view of the consolidated documents relating to 10 local public groups, as follows:

- Municipalities capital of Region: 3 (Bologna , Turin, Venice)
- Others municipalities: 7 (Parma, Pesaro, Pisa, Pistoia, Reggio Emilia, Verona, Udine)

Table I



THEORETICAL BACKGROUND

Following the outsourcing of local public services, the public companies must strengthen their skills local government in the whole of the individuals responsible for the direct provision of public services (Marcuccio, 2005). On the other hand, in the absence of adoption of appropriate instruments, the outsourcing can reduce the degree of accountability of the public company to its stakeholders (Kettl, 1993, Rhodes, 2000, Osborne, Brown, 2005 Bundred , 2006): the budget dell'aziende public, in fact, does not, by itself, the representation of economic, financial assets out of the activities provided for the territory.

The consolidated financial statements, therefore, is an effective tool for governing the activities of the local public group, communication to stakeholders on the economic conditions and financial items (Grossi, 2001, 2002). A next step is to clarify whether the consolidated financial statements should be interpreted as an instrument that satisfies the principle of utility in decision-making purposes (decision usefulness cd) or accountability.

According to the principle of utility decision, affirmed in the Anglo-Saxon reality, characterized by a greater development of financial markets and the spread of the companies in the equity spread (so-called public company), the budget must serve to recipients as an information base for decision-making in economic content (Grossi, Steccolini, 2004). The principle of accountability emphasizes the need to highlight the overall performance of a company (Pessina, 2007), in the interest of a wide audience of recipients. The principle of accountability is relevant in the context of the public, where the categories of stakeholders are large and the need for transparency is a priority. This gives rise to the need for a tool able to represent in a clear and comprehensive to stakeholders (Hayes, 2009; Liguori, 2007; McNabb, 2005). The tool is the consolidated financial statements. With reference to the relationship between the carriers of interest, according to the stakeholder theory, there exists a close link between voluntary disclosure and expectations of public opinion (Friedman, Miles, 2002). Each category of stakeholders in contact with local needs has specific information. The overall performance should be evaluated using information from which to express an opinion on the financial sustainability, production processes and to the total energy used to achieve the public purpose and the resulting satisfaction of the needs related (Grossi e Mussari, 2008).

The technical tool that can be used for accounting for the overall performance of the local authority's consolidated financial statements that provides an overview of the economic, financial and patrimoniale group, improving internal and external accountability (Lande 2008).

DISCUSSION

The accounting policies, which discipline the consolidated financial statements in Italy, are:

- Annex 4 of the Prime Ministerial Decree of 28 December 2011,
- Accounting Standard 4 - Observatory of Public Accounting, which is, however, indicative only and is not a law.

The International Accounting Standards, IPSAS 6, 7 and 8, were not, however, transposed into Italian: the test, among other things, the fact that the addresses of IPSAS does not always coincide with the addresses of the Italian accounting principles.

This paper focuses on the determination of the consolidation, on the assumption that, as you can see the criteria set by the national accounting standards and the IPSAS are different (see comparison table below).

Table II: the comparison between local gaap and International standards

	LOCAL GAAP	ACCOUNTING STANDARD OBSERVATORY	IPSAS IAS/IFRS
CONSOLIDATION AREA	Significance	Subsidiaries	Power/ benefit
INTEGRAL METHOD	Subsidiaries	Subsidiaries	Subsidiaries
EQUITY METHOD	No	Related	Related
PROPORTIONAL METHOD	Related	no	joint venture
EXTERNALITIES	Yes	no	no

Therefore, it is necessary to understand what are the entities that fall under the control of the local authority and, before that, what is meant by the term "control". To this end, one wonders if they

are appropriate to the criteria set out in Article. 2359 of the Italian Law, in conjunction with Art. 26 of Legislative Decree no. 127/1991, and in the light of the IFRS10 and SIC 12.

From the point of view of civil law, the control is:

- In which a majority of the voting power of an ordinary (so-called situation of law);
- Which in any case will have enough votes to exercise a dominant influence (facts);
- Where the dominant influence is exercised, however, in virtue of contractual obligations (contractual situation).

In particular, the art. 26 of Legislative Decree no. N. 127/1991 has changed the concept of contractual control not recognizing him in a general sense, but configuring it as a further hypothesis "of law", referring to cases in which the law, the articles of association or shareholders' agreements allow the participant the opportunity to elect a majority administrators. In any case, the definition is quite broad and includes all situations where a company is in a position to exercise a dominant influence over the investee, creating a concrete power of appointment and address. For our purposes, they are - we repeat - the ones to define the area of consolidation of local government, the rule is flawed because it does not address a particular case in an appropriate manner but frequent in local government. In fact, they are anything but rare cases where the municipality does not exercise a right of appointment and does not own shares, but it is strongly interested in the fate of an institution to the point of being responsible for his survival. In this specific case, the limit of the approach is privatized will identify the relationship of control as a matter of proprietary nature, ignoring the sense of social responsibility that is inherent in the nature instead of the local authority. For example, many cities in the "City Theatre" takes the legal form of a foundation and has a high degree of autonomy with respect to the municipality in which, often, it is not even the right to appoint directors on (or rather their majority).

The local gaap interprets broadly the meaning of the term "group": the consolidated financial statements of the Local public group shall include all subsidiaries of the local authority, irrespective of their legal form and therefore not only corporations, but also the special companies and other bodies to which you hold control and is arranged behind the direct responsibility of the local parent, consistent with the provisions in the programming group. This means that it's most important to define in advance the scope of the consolidated financial statements.

The local gaap introduces the concept of significance: they are to be included in the consolidation area all subsidiaries that are characteristic of significance. The definition of the public local group refers to a notion of control "law" and "fact" and "contract," even in cases where there isn't a bond of participation, direct or indirect, in the equity of subsidiaries and a notion of participation.

In the consolidation area it does not recognize the legal form or the different nature of the activity by the instrument or by the company.

The IPSAS 6 introduces the concept of power / benefit:

- power to govern the financial and operating policies of another economic entity;
- the entity obtain economic benefits of the activity performed by an other entity.

Regarding the Group local public the concept of benefit, as established by IPSAS, is very significant. The concept of benefit in the broad sense includes not only the economic benefit, but also the social, territorial. Where the parent company has the power to obtain and determine the activity in the interests of the territory, it exercises control on the company of reference, regardless of title participatory and percentage of participation. For example, in the case of permanent theaters, governed by foundations, which receive periodic contributions by dell'aziende local public, if the public company reference benefits from the work done by the theater, being able to determine, for

example, policies sales activity and demand for billboard, in the interests of the territory, is claimable the existence of a state of power/ benefit relevant to the consolidation.

The implementation of IPSAS implies, therefore, the exclusion of non-profit subsidiary companies, in which the principle of power / benefit is not observed. This results in a significant change in the scope of consolidation of local public group, with obvious impact on the presentation of the performance of the group, through its consolidated financial statements.

This is best demonstrated by the analysis of the case, the City of Turin. The experience of the City of Turin is represented by the establishment of some public services through a complex system represented by corporations, foundations, institutions and associations. To highlight the approach above the sample reporting to prepare consolidated financial statements was analyzed with a data base, which has compared the following information: on the subsidiaries:

a) On subsidarie

Profit		Non profit	
Subsidiaries		governance control	
<51%	>51%	<51%	>51%

b) On the consolidated area:

Ipsas/las							
Consolidated area				Consolidated data			
Subsidiaries profit	Subsidiaries non profit	Related profit	Related non pro Joint Venture	Asset	Debt	Turnover	

Local Gaap						
Consolidated Area			Consolidated data			
Subsidiarie Profit	Related Profit	Non profit	Asset	Debt	Turnover	

The analysis showed that only a municipality has entered the scope of consolidation companies "investments" non-profit organizations; the other, in derogation to the accounting principles in force, do not included them.

CONCLUSIONS AND ADVANCED

The local gaap and the international accounting standars are different, but integrated in order to provide an informative consolidated, representative of the local public group, composed of heterogeneous reality at the same time, public company, non-profit and for-profit companies, and significant in the interests of stakeholders. Beyond any taxation legislation, the exclusion from consolidation non profit dell'aziende implies in our opinion a serious shortcoming that affect the significance of financial statement: before opting for exclusion must be careful reflection on aspects of control and governance, which we discussed earlier, but also the relevance of the activity for the area and for the local parent company. An indicator of relevance is, for example, the amount of contributions paid by the company public parent company. The choice of the employees of the subsidiary is an another element of importance. On the other hand, for examples, the companies excluded from the consolidation of the territorial scope of the opera houses or theaters stable, regulated form of foundation, to which the company delivers relevant local public contributions at the consolidated level, does not represent the true financial condition of financial position, excluding stakeholders from relevant information for the monitoring of the results and the programming of new initiatives. It will compare, in the interests of the recipients of the consolidated financial statements, the local gaap and the international standards on the topics of consolidation methods and disclosures.

REFERENCES

- [1] ANNESSI PESSINA E., *L'evoluzione dei sistemi contabili pubblici*, Milano, Egea, 2007.
- [2] ANNESSI PESSINA E., STECCOLINI I., *La "contabilità economica" dell'ente locale: problemi teorici, soluzioni tecniche, riscontri empirici"*, Azienda Pubblica, 2007.
- [3] BUNDRED S., *The future of regulation in the public sector*, Public Money & Management, vol. 26, n. 3, pagg 181-188.
- [4] FARNETI G., POZZOLI S. (a cura di) *Principi e sistemi contabili negli enti locali. Il panorama internazionale, le prospettive in Italia*, Franco Angeli, Milano, 2005.
- [5] FREEMAN A. L., MILES S., *Developing stakeholders theory*, Journal of Management Studies, Vol 1, n. 39 (1-21), 2002.
- [6] GROSSI G., *Il bilancio consolidato degli enti locali*, Cedam, Milano, 2003.
- [7] GROSSI G., *Le funzioni del bilancio consolidato negli enti locali*, in Riv. Italiana di ragioneria e di economia, marzo, 2005.
- [8] GROSSI G., MUSSARI R., *Effect of outsourcing on performance measurement and reporting: the experience of Italian Local Government*, Public Budgeting and Finance, Vol. 1, n. 28 (22-38), 2008.
- [9] GROSSI G., REICHARD C., *Municipal corporatization in Germany and Italy*, Public Management Review, vol 10, n. 5, pp.597-617.
- [10] GROSSI G., STECCOLINI I., *Il bilancio consolidato negli enti locali: principi contabili e condizioni operative*, in Azienda Pubblica n. 4, 2008.
- [11] HEYS H.V., *Public Utilities their fair present value and return*, Sperling Paperback, Milano, 2009.
- [12] HINNA L., *Pubbliche amministrazioni: cambiamenti di scenario e strumenti di controllo interno*, Padova, Cedam 2002.
- [13] KETTL D., *Sharing Power: Public Governance and Private Markets*, Washington, Brookings Institution, 1993.
- [14] LIGUORI F., *Servizi pubblici locali*, Giappichelli, Torino, 2007.
- [15] MARCUCCIO M. SICILIA M., STECCOLINI I., *Il controllo strategico dei risultati nei gruppi pubblici locali: problemi e prospettive emergenti*, in.
- [16] McNABB D., *Public utilities: management challenges for the 21st century*, Edward Elgar Pub, Northampton, 2005.
- [17] OSBORNE S., GAEBLER T., *Reinventing Government*, New York, Plume, 1991.
- [18] OSBORNE S., BROWN K., *Managing change and innovation in public service organizations*, London and New York: Sage, 2005.
- [19] PISONI P., BUSO D., *Il bilancio consolidato*, Giuffrè, Milano, 2005.
- [20] PISONI P., BIANCONE P.P., BUSO D., CISI M., *Il bilancio consolidato Ias/Ifirs*, Giuffrè, Milano, 2007.
- [21] REICHARD C., *Strengthening Competitiveness of Public Service Providers*, International Review of Administrative Sciences, vol. 72, n. 4, pagg. 473-492.
- [22] Dr. B .Chandra Mohan Patnaik, Dr. Ipseeta Satpathy and Chandrabhanu Das, "Effectiveness of Outsourcing of Internal Audit and Financial Reporting by the Corporate", International Journal of Advanced Research in Management (IJARM), Volume 5, Issue 1, 2014, pp. 53 - 58, ISSN Print: 0976 – 6324, ISSN Online: 0976 – 6332.
- [23] Dr.V.Antony Joe Raja, "World Market Statistical Survey in Stakeholders: International Level Enhancing Business Efficiency Through Company Ethical Behavior", International Journal of Advanced Research in Management (IJARM), Volume 5, Issue 1, 2014, pp. 23 - 30, ISSN Print: 0976 – 6324, ISSN Online: 0976 – 6332.